

TEST YOURSELF ON ACCOUNTING INFORMATION

True or False

For each of the following statements, circle the T or the F to indicate whether the statement is true or false.

- T F 1. Bookkeeping is often referred to as the language of business.
- T F 2. Financial accounting information is the term used to describe the reports used by an organization's investors and creditors.
- T F 3. Accounting systems may be defined as the computer software used to store, retrieve, and communicate accounting information to internal and external parties.
- T F 4. The primary external users of financial accounting information include the Board of Directors, regulatory agencies, and the Securities and Exchange Commission (SEC).
- T F 5. Investors and creditors learn about the financial condition of an enterprise from a variety of sources other than the enterprise's financial statements.

- T F 6. The financial statements issued to external parties lack a "historical" focus.
- T F 7. Externally reported financial information contains very little, if any, approximations or inexact measures.
- T F 8. Internal users of accounting information depend heavily upon general-purpose financial statements in making day-to-day decisions.
- T F 9. Virtually all management accounting information is oriented toward historical events and performance.
- T F 10. Information integrity is important only to external users of accounting information.
- T F 11. The Securities and Exchange Commission (SEC) is primarily responsible for developing generally accepted accounting principles (GAAP) and other authoritative accounting pronouncements.
- T F 12. The Financial Accounting Standards Board (FASB) does not require the support of the SEC in developing new accounting standards.
- T F 13. The SEC passed the Sarbanes-Oxley Act in 2000.
- T F 14. Management accountants are required to earn a Certificate in Management Accounting (CMA) in order to be licensed in a particular state.
- T F 15. Only a few states have made 150 semester hours of college course work a mandatory requirement for becoming a licensed CPA.
- T F 16. The American Institute of Certified Public Accountants (AICPA) has a "formal" code of ethics for its members.
- T F 17. Public accounting is often referred to as governmental accounting.
- T F 18. Bookkeepers are not often responsible for evaluating efficiency of operations, resolving complex financial reporting issues, forecasting the results of future operations, tax planning, auditing, and for designing accounting information systems.

Completion Statements

Fill in the necessary word to complete the following statements:

1. Accounting is not an _____, but rather a _____ to an end.
2. Because accounting is widely used to describe all types of business activity, it is sometimes referred to as _____.
3. _____ accounting information is used primarily by external decision-makers, whereas _____ accounting is used primarily by internal decision-makers.

4. An _____ consists of the personnel, procedures, devices, and records used by an organization to (a) develop accounting information, and (b) communicate this information to decisions makers.
5. Investors and creditors are concerned about an enterprise's ability to generate both a _____ investment and an adequate _____ investment.
6. External financial reporting is directed primarily toward the information needs of _____ and _____.
7. Management accounting information is used primarily for _____ and _____ purposes.
8. In 2002, Congress passed the _____ in response to the financial reporting problems of several major corporations.
9. Certified Public Accountants (CPAs) are _____ by the states in which they practice.
10. Working as an accountant for the FBI is an example of a _____ accounting career.

Multiple Choice

Choose the best answer for each of the following questions and enter the identifying letter in the space provided.

- ___ 1. An accountant licensed by a state after meeting rigorous education, experience, and examination requirements is referred to as:
 - a. Managerial accountant.
 - b. Governmental accountant
 - c. Certified public accountant.
 - d. Internal auditor.
- ___ 2. The private-sector organization responsible for establishing generally accepted accounting principles (GAAP) is called the:
 - a. AICPA.
 - b. SEC.
 - c. IMA.
 - d. FASB.
- ___ 3. Which of the following is *not* an example of an external user of accounting information?
 - a. The company's Board of Directors.
 - b. The company's creditors.
 - c. The company's labor union.
 - d. The company's suppliers.

- 4. Which of the following is **not** considered a general-purpose financial report used by the investors and creditors of an organization?
- a. A statement of cash flows.
 - b. A production budget.
 - c. A balance sheet.
 - d. An income statement.
- 5. The repayment to an investor of the amount originally invested in the enterprise is referred to as:
- a. Return on investment.
 - b. Return of investment.
 - c. Profit.
 - d. Interest.
- 6. The government organization with the legal power to establish accounting principles for publicly owned companies in the United States is called the:
- a. AICPA.
 - b. SEC.
 - c. IMA.
 - d. FASB.
- 7. The clerical dimension of accounting that includes recording routine daily transactions is called:
- a. The Sarbanes-Oxley Act.
 - b. Managerial accounting.
 - c. Bookkeeping.
 - d. Accounting information systems.
- 8. The professional designation granted by the Institute of Management Accounting (IMA) is the:
- a. CMA.
 - b. CIA.
 - c. CPA.
 - d. CIMA.
- 9. The career path in accounting that deals primarily with the independent audit of financial statements is referred to as:
- a. Internal auditing.
 - b. Governmental accounting.
 - c. Managerial accounting.
 - d. Public accounting.

- ___ 10. Which of the following is *not* an example of an internal user of accounting information?
- a. The company's Board of Directors.
 - b. The company's labor union.
 - c. The company's senior management.
 - d. The company's Chief Executive Officer.
- ___ 11. A plan of financial operations for some future period is referred to as:
- a. A financial forecast.
 - b. An income statement.
 - c. A balance sheet.
 - d. A statement of cash flows.
- ___ 12. The formulation and analysis of the costs associated with certain business activities is referred to as:
- a. Financial accounting.
 - b. An independent audit.
 - c. Cost accounting.
 - d. An internal audit.

Exercises

1. Listed below are eight technical accounting terms emphasized in this chapter.

Audit
Bookkeeping
Public accounting
Income statement

Sarbanes-Oxley Act
Return on investment
Statement of financial position
Financial accounting

Each of the following statements may (or may not) describe one of these technical terms. In the space provided below each statement, indicate the accounting term described, or answer "None" if the statement does not correctly describe any of the terms.

- a. A financial statement that shows detailed results of a company's profit-related activities for a particular period of time.

- b. Principles that provide the framework for determining what information is to be included in financial statements and how that information is to be presented.

- c. An independent investigation of financial statements for the purpose of determining their fairness in relation to generally accepted accounting principles.

- d. A projected plan of financial operations for a specified period in the future.

e. The clerical dimension of accounting that includes the recording of routine daily transactions.

f. The repayment to investors of the amounts they originally invested in a particular enterprise.

g. Another term for balance sheet.

h. Legislation passed by Congress in response to the financial reporting practices of public corporations.

2. Assuming that you wish to open your own small business shortly after graduating from college. Unfortunately, you do not have the cash necessary to get you started. Your father is willing to lend you \$50,000, provided that you agree to pay the entire amount back in one year, plus interest at 15%.

a. Your father's anticipated return of investment is: \$_____.

b. Your father's anticipated return on investment is: \$_____.

3. In the space provided, indicate whether each of the following parties should be considered an internal user of accounting information or an external user.

I = Internal User

E = External User

_____ a. Bankers.

_____ b. The Board of Directors.

_____ c. The Vice President of Human Resources.

_____ d. Labor unions.

_____ e. Suppliers.

_____ f. Trade associations.

_____ g. Factory supervisors.

_____ h. Stockholders of a corporation.